HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Charlottetown CMA

Canada Mortgage and Housing Corporation

Date Released: Second Quarter 2007

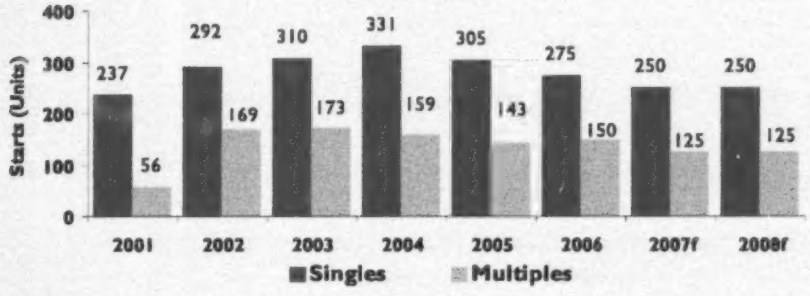
Migration and Interest Rates to Keep the Housing Market Stable

After performing at a very high level over the past five years, the Charlottetown housing market is starting to show signs that it is returning to more sustainable levels. The recent strength in the market has been fuelled in part by low interest rates, employment growth, and positive migration. While the market fundamentals remain essentially unchanged, there has been some overproduction particularly with the multiple starts. As such it is expected that overall housing starts will decline over the forecast period due to fewer multiple starts for the rental market, while single starts should see only a moderate decline.

Employment in the capital region is expected to exceed the record level of 2006 with 32,233 people working, an increase of 2.5 per cent over the previous year. The 2.5 per cent increase in 2006 was well ahead of the overall provincial increase of 0.6 per cent. One reason is the

Figure 1

Both Single and Multiple Construction to Slow Over the Forecast Period



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continued in-migration. As people from other parts of the province see the greater employment opportunities in the Capital Region, they decided to move there. In the first three months of 2007 total employment reached a new record high of almost 32,000 people employed, but the increase has come as a result of more part-time employment. This is not as positive for the housing market as full-time employment, since part-time employment tends to offer less in the way of salary and job security, and as such people are less likely to participate in the housing market. As these results are only from the first quarter, it may not have an impact on the annual forecast, but should be watched as the year progresses.

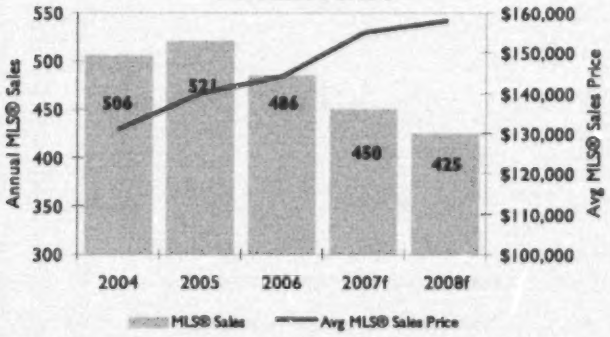
Positive net-migration is also one of the key factors contributing to impressive demand for housing in the Capital Region. According to Statistics Canada's 2006 Census, the Charlottetown CA, which encompasses the entire urban area around the city, recorded a population growth of 1,391 people or 2.4 per cent, from 2001 to 2006. These results are very close to what was expected and show that on average nearly 300 people per year are moving into the area. From Statistics Canada's Tax Filer Data we are given an indication as to the origin of these people, and from that we can estimate their intentions when it comes to housing. This data shows that in any given year about 70 per cent of the people moving to the Capital Region are coming from elsewhere in the province, while the remainder are from other regions of the country. We also know that the Island is continuing to lose people in the 18-24 cohort, while the largest in flux is in the 45-64 cohort. When taking into account local trends, it is evident that there is a fairly strong movement of ex-Islanders moving home to retire or finish their careers. The benefit to the local market is that many of these people, which are coming from much more expensive housing markets, have accumulated relatively large amounts of equity. This is one explanation for the substantial increase in the new home price that has been recorded over the past five years. This trend of people moving home is expected to continue over the forecast period and should get stronger over time due to the sheer number of people in the same situation. The one downside to the migration variable, is that out-migration among the younger cohorts continues. Although this will have very little impact on the forecast for the next two years, it may dampen the housing market over the longer term.

Interest rates have remained low over the past few years and are not expected to increase significantly over the forecast period. Although a slight increase is forecast in 2007, it is not expected to be enough to dissuade potential homebuyers.

While the local housing market has been performing well above average since 2001, it is expected to return to more sustainable levels this year and next. With the trends of in-migration and low interest rates expected to persist, the construction of single and semi-detached units for homeownership and the sale of existing homes will fare particularly well during the next year. The main reason for the decline will be fewer apartment starts.

Figure 2

Average MLS® Sale Price To Rise Over the Forecast Period



Average MLS® Sale to Rise

The number of residential MLS® transactions in the Charlottetown area has been in the range of 500 units per year since 1998, and is expected to slow only slightly from this level. While the number of listings has been on the rise since the low of 2004, there is now only a handful of listing under $130,000. In fact, at the end of April there was almost twice as many homes listed above $200,000 than there was

under $130,000. While the Charlottetown area has seen increases in both employment and income, it has not kept up with the recent increases in the housing market. As such, the slight declines expected over the next two years will be due to fewer first-time buyers. One factor that will keep the resale market strong over the forecast period is the rising cost of new homes. As new home price growth, which has been fuelled by mounting land, labour and material costs, continues to rise at a faster pace than the average price of existing homes, the price gap between the two will widen further. As such it is expected that potential buyers of new homes, especially move up-buyers, will give the resale market a serious look before choosing to build.

Average price growth is expected to take a breather in 2007 after jumping from almost $20,000 in 2006. This is expected due to the rising number of new listings that will provide potential homebuyers with greater choice. Expect the average MLS® sales price to grow by 7.9 per cent in 2007 before reaching a more moderate 1.9 per cent increase in 2008.

New Home Construction Poised to Slow

New home construction in the Charlottetown CA should slow in 2007 and 2008, due to fewer rental starts. In 2006, Charlottetown saw three separate condominium projects started containing almost 80 units in total. These projects accounted for almost 20 per cent of the total starts in the area and more than made up for the slump in rental and semi-detached starts. While the semi-detached values are expected to rebound over the forecast period, the forecast does not foresee an increase in rental units. Semi-detached units are expected to exceed the 2006 levels due to strong demand for the product from first-time home buyers. As first-time buyers show a preference for new homes compared to existing homes, and the cost of new single-detached homes is now well out of the budget for many potential buyers, semi-detached units are the logical alternative for these buyers. As such, it is expected that the number of semi-detached units will exceed the 2006 level in both of the next two years.

Multiple rental starts have been on the decline every year except one since reaching a fifteen year high in 2002 with 143 units. Due to increased rental construction the vacancy rate has been on the rise, reaching 4.8 per cent in 2006, from the almost record low of 1.8 per cent in 2001. With the vacancy rate forecasted to peak at 5.0 per cent in October 2007, expect to see developers continuing to focus on multiple starts for the home-ownership market. As such, rental starts are expected to remain below the 10-year average in both 2007 and 2008.

Single starts, although slowing from the near record pace set in 2004, have continued to remain at above average levels. This decrease can be partially attributed to rising new home prices which have caused some potential buyers to opt for the resale market. One can also expect to see larger, more elaborate and more expensive homes built over the forecast period, due in part to the aforementioned trend of in-migration thus driving up the average new home price in the area. The expected rise in new home prices will also be a result of the increased costs associated with labour, land and materials, as measured by the New House Price Index (NHPI). The NHPI in the Charlottetown area is forecast to advance by 3.0 per cent in both 2007 and 2008. This means that it will cost 3.0 per cent more to build the exact same house this year than in the previous year. Expect the average new home price to reach almost $200,000 by the end of 2008.

Forecast Summary Charlottetown CA Spring 2007							
	2004	2005	2006	2007f	%chg	2008f	%chg
Resale Market							
MLS® Sales	506	521	486	450	-7.4	425	-5.6
MLS® New Listings	783	903	970	2,900	1,000	950	-67.2
MLS® Average Price ($)	131,013	139,988	144,036	155,000	7.6	158,000	1.9
New Home Market							
Starts:							
Single-Detached	331	305	276	250	-9.4	250	0.0
Multiples	159	143	191	125	-34.6	125	0.0
Starts - Total	490	448	467	375	-19.7	375	0.0
Average Price ($):							
Single-Detached	179,488	188,741	186,774	192,500	3.1	198,275	3.0
Median Price ($):							
Single-Detached	165,000	175,000	175,000	180,250	3.0	185,500	2.9
New Housing Price Index (% chg.)	3.6	4.2	2.2	3.0	-	3.0	-
Rental Market							
October Vacancy Rate (%)	4.2	4.4	4.8	5.0	0.2	4.8	-0.2
Two-bedroom Average Rent (October) ($)	610	617	638	655	2.7	675	3.1
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.40	0.1	6.29	-0.1
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	6.63	0.2	6.80	0.2
Annual Employment Level (,000)	30,975	31,600	32,175	32,500	1.0	32,825	1.0
Employment Growth (%)	1.3	2.0	1.8	1.0	0.8	1.0	0.0
Unemployment rate (%)	8.3	8.1	7.6	7.4	-	7.6	-
Net Migration	329	-5	155	200	29.0	250	25.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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